

RUTLAND

RAILWAY CORPORATION

ANNUAL
REPORT
1965

RUTLAND
Railway Corporation
Rutland, Vermont

OFFICERS:

President:	Frank A. Augsbury, Jr.
Executive Vice-President:	Lloyd G. Bucklin
Vice-President:	Eric H. Lundin
Treasurer:	Sol M. Rosenberg
Clerk (Secretary):	Lloyd G. Bucklin

DIRECTORS:

*Wallace M. Fay, Chairman

*Frank A. Augsbury, Jr.	Lloyd G. Bucklin
Gordon W. Cutler	Harry M. Ditisheim
L. James Gumpert	Donald H. Hackel
*Lawrence R. Kessel	Eric H. Lundin
George J. Lyon	David S. Rosen
William H. Ross	*Louis S. Rothschild

(* denotes members of the Executive Committee)

COUNSEL:

Thomas W. Lynch, Esq., Vermont.
Stroock & Stroock & Lavan, Esqs., New York.

CERTIFIED PUBLIC ACCOUNTANTS:

Haskins & Sells, Boston, Mass.

REGISTRAR

United States Trust Company
of New York

TRANSFER AGENT

Manufacturers Hanover Trust
Company

March 29, 1966

TO OUR SHAREHOLDERS:

RUTLAND Railway Corporation terminated its status as a carrier under the Interstate Commerce Act as of December 31, 1964, and the calendar year 1965 marked the intensification of a vigorous program by the Company of diversification through acquisitions, mergers and direct investments.

Various acquisition opportunities have been and are being investigated. Management is working closely with your Company's financial consultants, one of America's leading banking firms, WHITE, WELD & CO., INC., and with industrial consultants to implement this program and achieve such diversification.

During the calendar year under review, work was begun on RUTLAND's first non-carrier operation — RUTLAND SHOPPING PLAZA — scheduled for completion during the Summer, 1966. This million dollar plus project, a joint venture with Philip J. Levin, one of the country's leading developers of shopping centers, has attracted widespread attention and leases have already been consummated with three major tenants: W. T. Grant & Co., First National Stores and Firestone Tire & Rubber Co. Eight additional leases have been signed and others are being negotiated.

RUTLAND contributed to this joint venture an undivided one-half ($\frac{1}{2}$) interest in certain land formerly occupied principally by the Company's freight and passenger depots and railroad yards, and working capital advances of \$40,000. Mr. Levin likewise contributed an undivided one-half ($\frac{1}{2}$) interest in this same land, and working capital advances of \$40,000. Mr. Levin acquired his interest in said land from the Company for \$267,412, which amount is approximately equal to one-half ($\frac{1}{2}$) your Company's depreciated cost of the property and related clearing expenses. Mortgage financing for all buildings and improvements has been arranged with a major New York savings bank.

Your Company's financial condition is sound, and excellent progress has been made in converting its fixed assets to a liquid position. Current assets at December 31, 1965 exceeded \$4,400,000 including cash and temporary investments of \$3,605,000, as compared with total liabilities of \$146,337.

Approximately \$8,300,000 has been realized from 1962 to December 31, 1965 from former railroad properties and related assets with approximately 90 miles of right of way (land) from Rouses Point, N. Y. to Norwood, N. Y., and a number of smaller properties in New York and Vermont awaiting disposition. Proceeds from properties sold during 1965 aggregated \$675,683 which was \$54,175 less than the estimated realizable value established for them in 1964. Properties still held at December 31, 1965 for future disposal are carried on the Company's books at \$404,403, the estimated realizable value established for them in 1964.

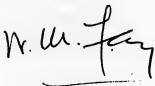
Payment to the Company of the balance of \$625,500 due on the previously reported sale of certain railroad properties and other related assets to the Ogdensburg Bridge and Port Authority for a total of \$675,500 is expected in the immediate future. Your Company has been advised that a loan application by the Authority for this purpose has been approved (February, 1966) by agencies of the United States Government.

Dividends on the \$65.00 par value Preferred stock are current and have been paid through December 27, 1965. On February 8, 1966, the Directors declared the current dividend of 97½¢ per share on the Preferred stock payable March 31, 1966 to stockholders of record March 18, 1966.

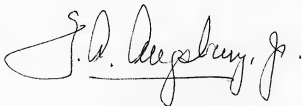
The accompanying Balance Sheet and Statement of Loss and Deficit as at December 31, 1965 reflect a deficit of \$2,789,746 based on railroad accounting methods formerly required by the Interstate Commerce Commission. Under the Internal Revenue Code, however, your Company's Federal corporate income tax returns reflect an aggregate net operating loss carry forward as at December 31, 1965 of approximately \$15,000,000. The Company's returns for the years in which such net operating losses were incurred have not yet been examined by the Internal Revenue Service.

Your Management is extremely gratified to have the collective experience and diversified business and financial backgrounds of the members of the Board of Directors who now determine your Company's policies and who are responsible for its operations and activities. We also wish to take this opportunity to express the appreciation of the Directors and Officers for the continued support and confidence of our stockholders and employees.

By Order of the Board of Directors.



WALLACE M. FAY
Chairman



FRANK A. AUGSBURY, JR.
President

EXECUTIVE COMMITTEE



WALLACE M. FAY, Chairman of the Board,
Rutland Railway Corporation.

Formerly Vice-President (Retired):
Vermont Marble Company.



FRANK A. AUGSBURY, JR., President.

President: George Hall Corporation, Hall
Corporation of Canada, Augsbury Oil
Corporation, Augsbury Terminals, Inc.,
Green Mountain Petroleum Corporation.

Director: Empire State Chamber of
Commerce, Agricultural Insurance
Company, Ogdensburg Trust Company,
National Bank of Northern New York.

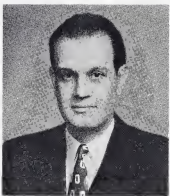


LOUIS S. ROTHSCHILD, Director.

Formerly United States Undersecretary
of Commerce, Chairman of the Federal
Maritime Board.

President: Transport Equities Corporation,
Standard Real Estate Improvement
Company.

Director: Mechanical Enterprises, Inc.

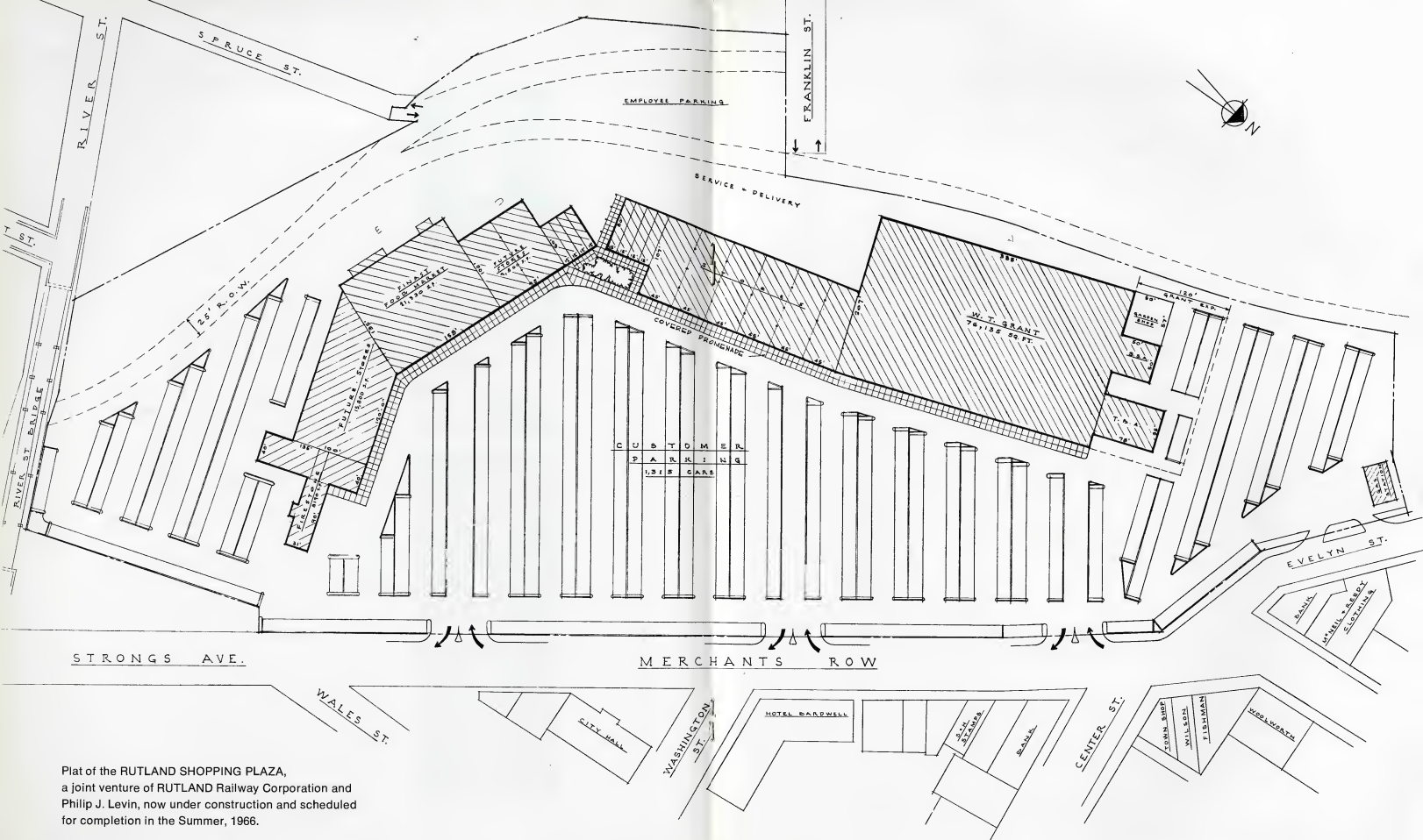


LAWRENCE R. KESSEL, Director.

General Partner, Lawrence Kessel &
Associates, Investments.

Director: Wood Harmon Corporation,
Studio Apartments, Inc., Greater New York
Development Corporation.

Director & Member of Executive
Committee: A. S. Beck Shoe Corporation.



Plat of the RUTLAND SHOPPING PLAZA,
a joint venture of RUTLAND Railway Corporation and
Philip J. Levin, now under construction and scheduled
for completion in the Summer, 1966.

RUTLAND RAILWAY CORPORATION

Balance Sheet, December 31, 1965

ASSETS:

CASH	\$ 65,268
SHORT-TERM BANK PROMISSORY NOTES (At cost plus earned discount)	2,975,896
TIME DEPOSITS	550,000
ACCRUED INTEREST RECEIVABLE	14,534
INSTALLMENT NOTES RECEIVABLE — on sales of equipment (\$26,300 due after one year)	49,488
DUE FROM OGDENSBURG BRIDGE AND PORT AUTHORITY (Note 2)	625,500
OTHER RECEIVABLES (net of \$10,000 allowance for doubtful accounts)	153,786
INVESTMENT IN AND ADVANCES TO RUTLAND SHOPPING PLAZA (Note 3)	307,412
PROPERTIES:	
Land, buildings, equipment, and replacement parts and supplies —held for disposal (at estimated realizable value—Note 1) ...	404,403
Land, buildings, and office equipment—in use (at depreciated cost)	398,858
OTHER ASSETS:	
Restricted funds	40,398
Miscellaneous investments, etc.	17,298
TOTAL ASSETS	<u>\$5,602,841</u>

LIABILITIES AND SHAREHOLDERS' EQUITY:

LIABILITIES:

Accounts and wages payable	\$ 50,752
Employee withholdings	2,617
Unclaimed dividends, interest, and distribution upon preferred stock exchange (payable from restricted funds)	40,398
Accrued real estate and other taxes	10,551
Casualty and other claims	42,019
Total liabilities	<u>146,337</u>

SHAREHOLDERS' EQUITY (Note 4):

Capital stock:

6% cumulative preferred shares, \$65 par value — authorized, 46,804; issued, 46,664; outstanding, 45,664, after deducting 1,000 treasury shares below	\$3,033,160
Common shares, \$1 par value — authorized, 106,916; issued and outstanding, 60,112	60,112
Capital surplus	5,206,571
Deficit	(2,789,746)
Total	<u>5,510,097</u>
Less treasury stock — 1,000 shares of 6% cumu- lative preferred, at cost	53,593
Net shareholders' equity	<u>5,456,504</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY ..	<u>\$5,602,841</u>

See notes to financial statements.

RUTLAND RAILWAY CORPORATION

Statement of Loss and Deficit for the year ended December 31, 1965

INCOME:

Interest earned	\$ 146,328
Rentals	29,246
Settlement of certain prior years' freight car rental disputes	25,237
Miscellaneous	<u>2,394</u>
Total income	<u>603,605</u>

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1965
(continued)

2. AGREEMENT WITH OGDENSBURG BRIDGE AND PORT AUTHORITY

In 1964 the Corporation sold to the Ogdensburg Bridge and Port Authority certain real estate located in Ogdensburg, New York and the railroad line between Ogdensburg and Norwood, New York for a total of \$675,500. Pending the approval of a loan application by agencies of the United States Government, the Authority has withheld payment for these properties (except for a \$50,000 down payment). The Corporation has been advised that such loan application was approved in February 1966.

3. INVESTMENT IN AND ADVANCES TO RUTLAND SHOPPING PLAZA

The carrying value of the Corporation's initial capital contribution of land to the Rutland Shopping Plaza (a joint venture with Philip J. Levin) equals the amount (\$267,412) paid to the Corporation by Mr. Levin for a one-half interest in such land which was sold to him and then contributed by him as his initial capital contribution to the Plaza; such value is not materially in excess of one-half of the Corporation's depreciated cost of the land and attached buildings (demolished), plus related clearing costs, etc. Subsequently, the Corporation and Mr. Levin each advanced \$40,000 as working capital. The Plaza has consummated leases with three major tenants, construction is in progress, and mortgage financing has been arranged. In connection with the leasing by the Plaza of an adjoining municipal parking area, the Corporation has guaranteed the payment to banks of a promissory note of the City of Rutland in the amount of \$125,000, plus interest, payable by the City in semiannual installments to September 1978 from receipts of all City parking meters.

4. COMMON STOCK WARRANTS

At December 31, 1965 warrants for 46,664 shares of the Corporation's common stock were outstanding and an equal number of shares of unissued stock were reserved therefor. Each warrant, issued in 1964 in connection with an exchange of the Company's preferred stock, entitles the holder to purchase one share of common stock during a ten-year period at \$40 per share during the first three years, \$45 per share during the next three years, and \$50 per share thereafter. The warrants are not exercisable and the ten-year period does not commence until there is in effect a registration statement under the Securities Act of 1933.

5. ACQUISITION PROGRAM AND FEDERAL INCOME TAX STATUS

The Corporation's management has been investigating various acquisition opportunities, the consummation of which could result in the investment of cash and/or the issuance of capital stock.

The 1964 Federal income tax return filed by the Corporation showed substantial aggregate net operating losses incurred in 1964 and prior years available for carry-forward against future taxable income in decreasing amounts for a period of at least five years. None of the years in which the carry-forward losses were incurred have been examined by the Internal Revenue Service.

Reference should be made to the accompanying letter to shareholders for further details.

HASKINS & SELLS
Certified Public Accountants

80 Federal Street
BOSTON 02110

ACCOUNTANTS' OPINION

Rutland Railway Corporation:

We have examined the balance sheet of Rutland Railway Corporation as of December 31, 1965 and the related statements of loss and deficit and of capital surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the amount which may be realized from the properties held for disposal, carried at \$404,403 in the accompanying balance sheet (see Note 1), the accompanying financial statements present fairly the financial position of the Corporation at December 31, 1965 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 24, 1966

A handwritten signature in cursive script that reads "Haskins & Sells". The signature is written in dark ink and is positioned to the right of the date.

RUTLAND
RAILWAY CORPORATION
RUTLAND, VERMONT